

Remarks

Claims 1-29 are pending in the application and have been rejected variously under 35 USC 101, 103, and 112. Applicant traverses those rejections, as discussed below. Original claims 1 (method), 15 (method) and 20 (system) have been cancelled and replaced by new claims 30, 31 and 32, respectively. New claims 30, 31 and 32 are derived from original claims 1, 15 and 20 and introduce no new matter. Accordingly, dependent claims 2-5, 7, 9-14, 16-19 and 21-29 have been amended to change their dependencies to the new independent claims 30, 31, and 32, and, in some cases, amendments were made for clarification.

As an overview, the present invention generates funds for a period of time for a foundation – using death benefits from a set of life insurance policies for a block of individuals. The premiums for the life insurance policies, at least in part, are borrowed from a lender (which can be, for example, one or more traditional lenders or investors). For the block of individuals, a mortality rate can be predicted. However, an actual mortality rate may be different than the predicted mortality rate. That becomes a source of risk for both the lender and the foundation, each of which relies on the death benefit distributions for payment of the loan and the foundation funds. To alleviate this risk, a mortality guarantee is procured to make up any shortfalls in the death benefit distributions caused by the actual mortality rate being less than the predicted mortality rate. Since the insurer providing the life insurance policies receives its premium payment, the insurer's risk is relatively low, and the mortality guarantee is not obtained for the benefit of the insurer, but primarily for the benefit of the lenders or investors. The loan amount may actually exceed the premium amount, in order to cover initial expenses involved in establishing and maintaining the program. Additionally, monies representing some or all of the cash value of the policies can be invested in a typical low-risk vehicle to generate additional funds. With this understanding, the claim amendments and the following remarks should be better understood.

Rejection Under 35 USC §101

Claims 1-19 have been rejected under 35 USC §101 as being directed to "non-statutory subject matter". Specifically, independent claims 1 and 15 were rejected, along with their dependent

claims 2-14 and 16-19, respectively. Claims 1 has been replaced by new claim 30, which provides a clearer recitation of the invention disclosed in original claim 1. New method claim 30 brings technical features into the claim elements, and advances the technological art in defining a set of steps that can be carried out by one or more computer systems to produce a useful, concrete and tangible result. In fact, the present office action acknowledges that the present invention provides a useful and tangible method of securing revenue (Office Action, p. 3). New method claim 31 is similar to claim 30, but includes additional limitations. Accordingly, Applicant believes that claims 30 and 31 satisfy the requirements 35 USC §101 relied on to reject original claims 1 and 15.

Rejections Under 35 USC §112, 1st paragraph

Claims 1-19 have been rejected because "It appears that the funding of the program in claims 1 and 15 is subject only to human interaction". As stated above, new claim 30 is offered in place of original claim 1. As presently recited, claim 30 provides a set of steps that yield a consistent result. The various financial parameters are interrelated. Thus, for example, given a desired foundation cash flow other parameters can be defined, such as a size of the block of individuals. For any block of individuals, it is well within the knowledge of insurance companies to determine a predicted mortality rate and premiums for the block. From that, a mortality guarantee can be determined that ensures sufficient repayment to the lender, in the event death benefit distributions from life insurer's premium fall short. Thus, together the life insurance death benefit distributions and mortality guarantee distributions, when needed, ensure a reliable income stream that can be used to pay the foundation and repay the lender of the loan used to pay the life insurance premiums. Accordingly, Applicant believes that the clarifications of claim 30, which include the above reliable payment streams, overcome the rejections under 35 USC §112.

Beyond the death benefit distributions and mortality guarantee distributions, funds held within the program, such as residuals from these distributions and any other escrowed amounts, can be invested in typical low-risk vehicles – well known in the art. Additionally, some or all of the cash value of the insurance policies can be invested. For example, investing in an S&P 500 index provides a reliable vehicle. In such a case, a failure to reach the design goals (i.e., repayment of the

loan and payment of funds to the foundation) would require a significant negative annualized rate of return - well in excess of a negative 10% per year for the entire period of the program (e.g., 20 or 25 years). While this may be a theoretical possibility, in the last hundred years or so there have never been two consecutive 5 year periods of time when the S&P 500 has presented negative rates of return. Of course, other lower risk vehicles could be chosen with even greater predictability, e.g., bonds or typical interest bearing accounts. So, from a historical perspective, even with ordinary skill in the art, earnings from such monies are relatively reliable and predictable with regard to achieving the minimum design goals. Therefore, as provided in the claims, the present invention produces a repeatable result, requiring no more than ordinary skill in the art.

Rejections Under 35 USC §103

The office action rejects claim 1-29 as being obvious under Ross US No. 5974390 (Ross) in view of Holmwood, *An Innovative Alternative For Funding Life Insurance Programs*. ("Holmwood") The office action states that "Ross teaches a method for providing a continuous stream for income from insurance policies purchased for a pool of individuals" and that "Holmwood teaches the use of premium financing strategies to pay for life insurance policies." (Office Action, page 6) The office action also asserts that it is known in the art to use a "reinsurer to insure the cash flow amount". (Office Action, p. 7). The Applicant contends that upon closer inspection, Ross and Holmwood are actually quite different from the present invention – on a very fundamental level.

The claims, for example independent claim 30, have been amended to distinguish that the term "reinsurance" as used variously in the present application means a "mortality guarantee". (See, e.g., Application, p. 5, lines 3-15) The distinction between the mortality guarantee of the present invention and traditional reinsurance is significant. The office action suggests that:

reinsurance in the present invention is not inconsistent with "traditional" use of reinsurance (to mitigate risk of a short fall by a primary insurer)

(Office Action, p. 10)

However, as described in the specification and claim 30, the mortality guarantee of the

present invention is completely different from reinsurance. Traditional reinsurance is a risk management tool for a primary insurance company. That is, the traditional reinsurance policy is a policy between a primary insurance company and a reinsurance company to share the risk so that adverse losses do not meaningfully impact the primary insurance company's profitability. The primary insurance company accepts lower profits, including payment of a reinsurance premium, for much less risk.

In contrast, in the present invention, the mortality guarantee is a risk management tool for the lender of the premium and the foundation – not for the insurance company. If, in the present invention, the insurer wanted to mitigate its risks, it could certainly seek a traditional reinsurance policy, but that would have nothing to do with the mortality guarantee of the present invention, which is procured to mitigate risk of the lender primarily.

In the life insurance context, the risk to the primary insurance company is that deaths occur at a greater rate than anticipated, causing the primary insurance company to payout death benefits more rapidly than anticipated. In such a case, the reinsurance company covers at least a portion of the excess death benefit distributions due from the primary insurance company. If deaths occur at a slower rate than anticipated, the primary insurance company benefits. Thus, in traditional reinsurance, loss occurs and the reinsurance company pays when too many deaths occur.

In contrast, in the present invention, the loss occurs and mortality guarantee payments are made only when too few deaths occur, which is clearly not traditional reinsurance. Thus, the mortality guarantee of the present invention, therefore, is opposite that of traditional reinsurance.

Using an example for the present invention, if, over an entire program period of 25 years, not a single individual were to die, in other words if there is zero mortality, the mortality guarantee company would still make all payments and would still assure the repayment of the debt to the lender. In fact, the mortality guarantee of the present invention has, based on Applicant's experience, never been done before in the insurance industry. And obtaining such a guarantee has, to date, been the single most difficult task in achieving the claimed invention –since it poses a structure unfamiliar to traditional reinsurance companies.

Accordingly, the mortality guarantee of the present invention is not made obvious by Ross

and Holmwood, even when taking into account reinsurance as traditionally known in the art. Independent claims 30, 31 and 32 include the above unique mortality guarantee for the benefit of a lender, which generates distributions when deaths do not occur. Applicant, therefore contends, that independent claims 30, 31 and 32, and each of their dependent claims, are not obvious in view of Ross and Holmwood.

An additional difference is that Holmwood teaches "an alternative method for funding life insurance premiums", where there is a need to generate a stream of revenue to pay annual premiums (Holmwood, Abstract) The premiums are borrowed, but the thrust is to achieve loan payments that are less than the premium payments, thereby the insured's out-of-pocket costs are reduced and certain tax benefits can be achieved. But in the present invention, a stream of revenue is not generated to pay premiums. Rather, the revenue is generated to pay the foundation and to repay the loan. In Holmwood, the loan is repaid after a predetermined term (i.e., "at the end of 10 years"). But in Holmwood no funds are generated for a foundation, Holmwood rather addresses minimizing out-of pocket costs. Thus, the different functions of Holmwood results in different structures and methods, and different results, when compared to the present invention.

Additionally, Ross teaches a system that makes no mention of generating funds for a foundation, but rather combines small groups to achieve large group benefits. For instance:

"This system was developed to allow small groups of insured people to have a predictability of inflow that large groups of insured people have through use of a vehicle that allows for the continuation of these small groups and enabling the application of "large group" statistics to the combination,

(Ross, col. 3, lines 34-40)

Furthermore, the vehicle in Ross reduces the upside to the participants, in exchange for greater predictability. For example, Ross states:

With this knowledge, a participant may forego the improbable possibility of receipt of a windfall (e.g., receipt of a death benefit) in favor of projected smaller, but more predictable, streams of inflow 70.

(Ross, col. 5, lines 21-24)

In Ross, the participants are initially entitled to death benefits, but by joining the vehicle that potential gain is reduced, though made more predictable. In contrast, in the present invention the foundation is not initially entitled to death benefits, but rather first becomes entitled when the program is formed. Therefore, the foundation, in the present invention, does not accept less to enter the program than it would have been entitled to had it not entered the program.

Ross also does not teach providing cash flow benefits to a foundation, but provides payments to a combination of existing groups having statistically determined claims against any death benefits received. But in Ross, the flow to the participants is not predetermined, since it is still dependent on actual deaths occurring, not predicted deaths needed to reach a financial goal. So Ross does not ensure a certain cash flow to its participants, but merely divides up what it receives, when it receives it. Therefore, Ross does not make obvious the present invention.

Accordingly, Ross and Holmwood, whether taken alone or in combination, do not teach each and every element of independent method claims 30 and 31, or system claim 31. Accordingly, it is believed that claims 30, 31 and 32 and their dependent claims, i.e., claims 2-14, 16-19, and 21-29, respectively, are not obvious in view of these references and removal of the rejections is respectfully requested.

The Commissioner is hereby authorized to charge any additional fees under 37 C.F.R. §1.16 and §1.17 that may be required, or credit any overpayment, to our Deposit Account No. 50-1133.

Respectfully submitted,


David M. Mello, Reg. No. 43,799
McDermott, Will & Emery
28 State Street
Boston, MA 02109
Tel (617) 535-4037
Fax (617) 535-3800
E: dmello@mwe.com

Date: September 9, 2004